

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ARA-10 NEA-10 EA-09 CAB-05

CIAE-00 COME-00 DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-02

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 498

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POUCHED INFO ALL CONGENS IN CANADA

E.O. 11652: N/A

TAGS: EAIR, CA

SUBJ: CP AIR CONSIDERING DRASTICALLY REDUCED
INTERNATIONAL SERVICE

1. FINANCIAL POST JULY 17 FEATURED MAJOR ARTICLE BY
USUALLY WELL INFORMED JOURNALIST CLIVE BAXTER REPORTING
THAT IN VIEW OF DISCOURAGING FINANCIAL OUTLOOK AND NEED
TO CUT COSTS CP AIR IS CONSIDERING MAJOR CURBACKS IN ITS
INTERNATIONAL SERVICES. ARTICLE QUOTES CARRIER'S PRESIDENT,
IAN GRAY, AS STATING: "IF THE GOVERNMENT WANTS CERTAIN
INTERNATIONAL ROUTES FLOWN FOR POLICY REASONS, THEN IT
MUST FIND A WAY TO SUBSIDIZE THEM."

2. LATIN AMERICAN SERVICES (BUENOS AIRES, SANTIAGO, LIMA
AND MEXICO) REPORTEDLY HEAD LIST FOR SLASHING, BUT
OTHER POINTS MENTIONED AS MONEY LOSERS ARE MADRID, MILAN
AND TEL AVIV. PROFITABLE SERVICES INCLUDE LISBON, ROME,
ATHENS, AMSTERDAM, TOKYO, HONG KONG, FIJI AND SYDNEY.

3. COMMENT: CP AIR HAS HISTORICALLY BEEN PROFITABLE,
BUT LAST YEAR REPORTED ITS FIRST DEFICIT IN THIRTEEN
YEARS (SEE OTTAWA 0388) AND APPARENTLY DOES NOT SEE ANY
NEAR TERM TURNAROUND. AS A PRIVATE OPERATOR IT HAS ALWAYS
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TAKEN SECOND PLACE TO AIR CANADA IN TERMS OF GOVERNMENT

FAVORS. SIGNIFICANT RESTRICTIONS ON ITS ABILITY TO COMPETE WITH AIR CANADA DOMESTICALLY HAVE LONG BEEN A BONE OF CONTENTION, AND IT HAS NOT BEEN FAVORED WITH LUCRATIVE TRANSBORDER AND INTERNATIONAL ROUTES EXCEPT ON THE PACIFIC. ITS SOUTH AMERICAN EXPERIENCES HAVE BEEN BAD IN VIEW OF RESTRICTIONS IMPOSED BY WEST COAST GOVERNMENTS SIMILAR TO THOSE PUT ON U.S. CARRIERS.

4. IN VIEW OF GOC'S GENERAL EFFORTS AT FISCAL RESTRAINT AND ITS NEED TO HELP AIR CANADA OUT OF FINANCIAL DIFFICULTIES IT WOULD BE VERY SURPRISING IF CP AIR WERE OFFERED DIRECT SUPPORT FOR ITS AILING ROUTES. HOWEVER, GIVEN THE INTERESTS OF ITS SISTER FIRM, CP RAIL, IN SECURING PUBLIC FINANCIAL SUPPORT WITHIN THE FRAMEWORK OF CANADA'S EVOLVING NATIONAL TRANSPORTATION POLICY, IF THE GOC REALLY WISHES CERTAIN UNPROFITABLE INTERNATIONAL AIR ROUTES MAINTAINED, PRESSURE CAN UNDOUBTEDLY BE EXERTED ON THE PARENT CORPORATION WHICH HAS EXTENSIVE PROFITABLE OPERATIONS IN RESOURCE DEVELOPMENT AND REAL ESTATE.

5. COPIES OF FINANCIAL POST ARTICLE BEING POUCHED TO STATE OA (STYLES), CAB (LITTON), DOT (FLYNN).
ENDERS

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